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HEADLINE: Google To Acquire YouTube for \$1.65 Billion in Stock - Final

BODY:

OPERATOR: Good day and welcome, everyone, to the Google, Inc. conference call. This call is being recorded.

At this time, I would like to turn the call over to Ms. Kim Jabal, Director of Investor Relations at Google. Please go ahead.

KIM JABAL, DIRECTOR OF IR, GOOGLE INC.: Hi, everyone, and thanks for joining us today. On the call today to discuss the announcement are Eric Schmidt, our Chief Executive Officer of Google; cookbook, Sergey Brin, the Co-founder and President of Technology at Google; David Drummond, Senior Vice President of Corporate Development at Google; Chad Hurley, Co-founder and Chief Executive Officer of YouTube; and Steve Chen, co-founder and Chief Technology Officer of YouTube.

First, we will share some thoughts on this news today, and then we will take your questions. This call will last approximately 30 minutes, and a webcast of the call as well as the press release are available on our investor relations website.

Now, I need to remind you that some of the comments we will make today are forward-looking, including statements regarding Google's and YouTube's prospects for improving their services and creating new business opportunities and the expected timing of the close of the acquisition. These statements involve a number of risks and uncertainties that could cause actual results to differ from those anticipated, including regulatory factors; changes in economic, business, technological and competitive factors; and the failure of YouTube and Google to work together effectively. Please refer to Google's SEC filings, including Google's report on Form 10-Q for the quarter ended June 30th, 2006, for additional risk factors that may affect the outcome of these forward-looking statements. Copies of these documents may be obtained from the SEC or by visiting the investor relations section of Google's website.

These forward-looking statements speak as of today, and you should not rely on them as representing our views in the future. We undertake no obligation to update these statements after this call.

Now, I will turn the call over to Eric.

ERIC SCHMIDT, CHAIRMAN OF THE EXECUTIVE COMMITTEE AND CEO, GOOGLE INC.: Thanks very much, Kim. This is a very exciting announcement here from YouTube world headquarters. Joining me are the two co-founders, along with Sergey and David. Just this morning, you all saw five content distribution announcements with Sony BMG, Warner Music Group, Universal Music Group and CBS, which in my view highlight the growing value that content owners place on the Internet as a new channel to distribute and promote their work. This acquisition is an exciting next step, in terms of our thinking about the evolution of the Internet and video, and one of many investments

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that we at Google will be making to make sure that video has its proper place in people's online lifestyle on the Internet worldwide.

Chad and Steve remind me when I first came to Google of Larry and Sergey. I say that with great affection. They are remarkable people, and in a very short time, they have built a remarkable team -- creative, innovative, visionary and successful -- a perfect example of the kind of people that we like to work with. Of course, everyone here knows on the call that they have built this extraordinary business and a social phenomenon that I've never seen before.

Their vision and focus and values complement their own, and the thing that tipped us over was not the great business success of YouTube or the good working relationships but, in fact, the vision and the vision about serving their end users was exactly the same as Larry and Sergey's vision in founding Google. We believe the combination of Google and YouTube will create this very new and interesting global media platform for users, content providers and advertisers all around the world.

Chad, why don't you tell everybody both why you decided to join up with Google and also a little bit about where YouTube is going to go?

CHAD HURLEY, CO-FOUNDER, CEO, YOUTUBE, INC.: Yes, I would love to do that. Thank you, Eric. So, we're excited by this announcement and thrilled to join forces with the Google team. Google has demonstrated how great ideas can change the way people find and use information. From the beginning, we have listened to our community to create a stage where everyone's voice could be heard. Right now, we're in the middle of a shift in digital media entertainment, and users are now in control of what they watch and when they want to watch it. They decide what rises to the top, what is entertaining.

So by joining forces with Google, we will be able to sharpen our focus on this vision to create a new media platform for consumers and partners to distribute their media worldwide. This allows -- with Google's success in building a revolutionary new ad platform, this has inspired us to create a new model, a new platform for video content on the Web. With this new relationship, we will combine Google's experience and have the resources to continue on our mission to offer the most entertaining online video experience.

Now, I would like to turn it over to Steve for his thoughts.

STEVE CHEN, CO-FOUNDER, CTO, YOUTUBE, INC.: From the technical side, at YouTube, our team has built a powerful and cost-effective infrastructure that scales to serve billions of videos. Now, with Google's technology and search leadership, combined with our innovative architecture, we will have the resources to take our service to the next level.

We're committed to developing creative new features for our community so they can continue to express themselves in unique and personal ways. Building YouTube this past year has been an extraordinary experience for us all, and we believe that this is just the beginning. We're extremely excited to be working with Google to define this next generation of online entertainment.

SERGEY BRIN, CO-FOUNDER & PRESIDENT, TECHNOLOGY, GOOGLE INC.: Hello, good afternoon. I just wanted to tell you how excited I am about this announcement. As you all know, Google's mission is to organize the world's information and make it universally accessible and useful. Video is a very important part of the world's information. We spent a lot of time working on our two core areas of search and advertising. We think about search -- oftentimes when you want an explanation or a true understanding of something, what better way to see it than an actual video stream? It's just a fantastic source of information, and we think it will be one of the keys to having comprehensive search experience, is to have great search over video.

I also want to talk a little bit about our advertisers, where video is a great medium for advertising. From that point of view, we're really excited about YouTube on that side as well, because I expect that will be a great channel for advertising.

On the whole, it's hard for me to imagine a better fit with another company, both in terms of the offerings and the video platform that YouTube has built, as well as the cultural fit that this really reminds me of Google just a few short years ago. So, on the whole, I am very excited and I am delighted to be able to participate here with the YouTube founders on this announcement.

ERIC SCHMIDT: So thank you, Chad, Steve, Sergey. Now, I think we should move on to questions.

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OPERATOR: (OPERATOR INSTRUCTIONS). Mary Meeker, Morgan Stanley.

MARY MEEKER, ANALYST, MORGAN STANLEY: First, congratulations -- which was not a question; that was a statement. But anyway, moving on, there's obviously a huge amount of content on the YouTube site. There's a huge amount of searches on the Google site. How are you thinking about potentially accelerating the integration of those two services and assets, i.e., more tagging for the YouTube content?

Also, what is your plan for going out to the Sony's and the Warner's and the folks that you just announced relationships with today, and talking to them about how you can more effectively get their stuff tagged and then ultimately monetize it?

STEVE CHEN: So, I'll take the first part, on the integration of Search and the content on YouTube. I've always felt that the YouTube experience is a combination of watching videos as well as being able to find that next interesting video. We've had a lot of different ways that we've indexed these videos. What we feel like is we've reached -- with Google's help and with Google's expertise in search, what we can really do is elevate the most relevant videos up to the user, in an even more innovative fashion than what we have done in the past.

CHAD HURLEY: Specifically talking about our partnerships with media, today announcing Universal, Sony and CBS, combined with previous announcements with Warner Music Group, we're committed to developing tools to help them identify their content and monetize it in new ways -- not only by having a new outlet for distribution for their initial catalog, but a way to harness the power of user-generated content that didn't exist before.

OPERATOR: Imran Khan, JPMorgan.

IMRAN KHAN, ANALYST, JPMORGAN: Congratulations on the deal. I was trying to get a better sense why did you feel it was necessary to buy YouTube when you have a competing product, Google Video? What are the reasons that you think was the success of YouTube, that led you to buy the Company?

Secondly, I was wondering why it's stock, not cash, because I think in the past you made cash acquisitions.

Finally, the last question is, Chad, can you give us some sense of what the cost side of the YouTube business -- little bit of color, what kind of cost structure you're running?

ERIC SCHMIDT: When we looked around at our mission and what was out there, it was clear that Google Video is doing very well. Google Video has lots of interesting partnerships, a tremendous amount of content on it, and it's on a path of very, very tight integration inside of Google. When we looked at the marketplace and we saw what was going on, there was a clear winner in the networking and social networking side of Video, in the sense that people were using these in ways that we were very impressed with. That's what really drove us to begin the conversations with YouTube. David?

DAVID DRUMMOND, SVP, CORPORATE DEVELOPMENT, GOOGLE INC.: On your question with regard to the stock, we structured this as a stock transaction in order to make it tax-free for the YouTube shareholders, which we think is a good transaction for them and for us, in the sense that it in some ways made it cheaper for us. There is some very slight dilution, but we think that this is a good structure. We're also pleased that the YouTube shareholders want to become shareholders of Google and participate with the rest of us.

ERIC SCHMIDT: I think, on the cost structure side, I can tell you, looking around, these YouTube people have not spent very much money. They are very, very thrifty. Let's go ahead to the next question.

OPERATOR: Doug Anmuth, Lehman Brothers.

DOUG ANMUTH, ANALYST, LEHMAN BROTHERS: First, can you provide some details around YouTube's new content ID architecture and how that's going to be implemented in the deals that you signed this morning?

Secondly, you obviously talked a lot about the user experience. Does that mean that, going forward, you would probably not consider showing pre-roll ads even on some of the licensed content that you are working with?

ERIC SCHMIDT: Chad, why don't you go ahead?

CHAD HURLEY: The new systems that we're putting in place are going to allow our partners to identify their content through audio fingerprinting and metadata searches, allow them to effectively see what's going on within the system. Steve, you can elaborate on some of the other technical details.

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STEVE CHEN: Yes, we have been hard at work; the engineering team here has been hard at work at creating just improvements in the ways that users and content providers can identify the content that exists on the YouTube site. So with various mechanisms [about] fingerprinting and audio fingerprinting, as well as keyword and context searches, we're actively in development and we hope to release this in the next month.

STEVE CHEN: In terms of pre-roll advertising specifically, I think we're going to be exploring a lot of options, utilizing Google's advanced ad technologies, and present a good experience that benefits our users' experience and also helps our partners monetize their content.

OPERATOR: Mark Rowen, Prudential.

MARK ROWEN, ANALYST, PRUDENTIAL: I guess this is for Eric, but when you think about monetizing YouTube and getting a return on the money that you paid, in the near-term and then sort of mid-term, maybe three years out, do you think that most of the monetization is going to be coming from search advertising or video advertising?

Second, you mentioned that it's slightly dilutive. I wonder if you could be a little bit more specific and tell us how dilutive it will be for this year and next year.

ERIC SCHMIDT: First, as I think you know, we don't actually give guidance of any of that sort. So I really shouldn't answer any of those sorts of questions. I'm really not the expert on how the YouTube video opportunity will play out. What's interesting is, in the relatively short period of time that the engineering people have had to talk to one another, and under the constraints of due diligence and so forth, we have come up with 20 or 30 different ways in which the YouTube technology can be assisted by Google technology, Google advertising technology can be applied to YouTube traffic, Google Search can be used to improve the user experience for YouTube.

So we don't lack from a set of ideas. I think most people believe that this is just the beginning of an Internet video revolution, and there will be many ways in which that video gets uploaded, monetized and copyrights respected, which is another key component of the YouTube vision, and ours as well.

OPERATOR: Justin Post, Merrill Lynch.

JUSTIN POST, ANALYST, MERRILL LYNCH: Can you talk at all about the revenue share features when you work with content providers, any economic outlook you can give us on those deals? Just any idea on what you used to value this acquisition -- were you looking at cash flow returns? Or any kind of help you can give us on that?

Eric Schmidt We typically don't go into the details of the financials of the business deals we have been doing. I suspect YouTube has the same policy. In general, the deals are very, very good for the partner, and that has been one of the hallmarks of our dealmaking. David, do you want to talk about the structure a little bit?

DAVID DRUMMOND: Yes. I think we modeled this on a more or less synergistic kind of a model. You can imagine that it might be difficult to do this on a stand-alone basis. We feel that we arrived at a purchase price that's very fair and reflects the great value that has been created at YouTube.

OPERATOR: (OPERATOR INSTRUCTIONS). Kevin Allison, Financial Times.

KEVIN ALLISON, MEDIA, FINANCIAL TIMES: If you guys could talk a little bit about the role that copyright played in guiding your discussions about the acquisition, and what your plan is for dealing with copyright issues? Aside from just the technical features, what other things are you doing and what steps are you going to take to interact with studios?

CHAD HURLEY: Well, in terms of guiding our decision, from the beginning we have always respected rights holders' rights, and we are going to continue with that mission. What this deal allowed us to do is to focus on that much more than we ever could before, to have the resources to build the systems so copyright holders can benefit from our site. That will continue.

DAVID DRUMMOND: The YouTube vision and the YouTube commitment to enforcing copyrights is very consistent with Google's. We both rely on the Safe Harbor, the DMCA, and take many steps to discourage our users from uploading infringing material. We cooperate with content owners to remove things whenever we find them, or when we hear about them. So we think that, with some of the deals like the ones you saw this morning, we can take even greater steps to work with content owners to protect their intellectual property rights.

OPERATOR: Daniel Arnall, ABC News.

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DANIEL ARNALL, MEDIA, ABC NEWS: I'm wondering what, if anything, users can expect in terms of integration in the short-term. I know a lot of people who are certainly using the sites for content, and wonder what we're going to be seeing and how quickly.

STEVE CHEN: As Eric mentioned, just in the last 48 hours, we have been rushing to create a list of all the potential integration points between Google. It's difficult to say right now exactly what we're going to be attacking first, but there is no shortage of projects in the weeks ahead.

SERGEY BRIN: From the Google side, I think we care very much about Search and, as I mentioned, to increase the comprehensiveness of Search. We would certainly want to include YouTube's videos in that. I think that we have also worked on the advertising systems, but I think that there's a great deal more experimentation and trials to be done there, so that might not happen quite as quickly in a user-visible way.

DANIEL ARNALL: So, Google Video doesn't go away right away?

SERGEY BRIN: No.

ERIC SCHMIDT: No, it doesn't go away right away or ever. I hope that's clear. Google Video is a very valuable part of the Google experience, and in fact is going to become even more integrated with Google overall.

OPERATOR: (OPERATOR INSTRUCTIONS). Robert Peck, Bear Stearns.

VICTOR ANTHONY, ANALYST, BEAR STEARNS: This is actually Victor Anthony, in for Bob Peck. We were wondering whether or not there was anything particular about the MySpace deal, anything that you guys were learning from the MySpace deal that made YouTube more attractive? For example, are there any data mining possibilities that you guys could probably leverage there?

Second, as far as the transaction itself, are there any breakup fees? What would prevent the transaction from closing? We understand that there was a bidding war for YouTube. I wanted to know, why did YouTube actually end up choosing Google over their other potential bidders?

SERGEY BRIN: I'll take the first question. We certainly have no intention of any kind of data mining or whatnot. I think the general takeaway that we have seen from sites such as MySpace -- but you can look at others online, YouTube, obviously, Facebook, Orkut in Brazil. I think that you see that there's a new class of sites that have really developed very quickly, are very successful and are very attractive to users and are obviously delivering a lot of value. I think that's kind of a next generation of Internet sites and companies. We are very excited to work with them in all sorts of ways, whether it be partnerships or, in this case, as a merger, monetization relationships and whatnot. I think it's just a whole new ecosystem, and we're excited to be a part of it.

DAVID DRUMMOND: On your other questions relating to the closing of the deal, we expect to be able to close in Q4, subject to the normal sort of customary conditions, HSR approval and the like. The deal has been approved by all necessary corporate approvals, and we have obtained all necessary corporate approvals of both companies in order to consummate the transaction.

As to your last question, it's really not possible to comment on what other companies might have been thinking. It was a very good negotiation process in which we arrived at a fair deal for both parties.

OPERATOR: Laura Locke, Time Magazine.

LAURA LOCKE, MEDIA, TIME MAGAZINE: This first question is for Chad. Chad, you have repeatedly said, in interviews and so forth, that YouTube isn't an acquisition target, it's not for sale. Essentially, what's changed?

CHAD HURLEY: Well, those comments were made because we wanted to remain independent and continue on our mission to build great products for our users. By now working with Google, that's still the case. We're going to be able to remain independent and concentrate on building great features for our users. But now, we will be able to sharpen our focus on building this new media platform, and it also combined with Google's experience and resources to accelerate that. So that's what excites us about this deal, and we're looking forward to the future.

LAURA LOCKE: What is happening to the YouTube brand? How will that integrate with Google? Is there going to be a name change?

ERIC SCHMIDT: Very much no. We have decided that it makes perfect sense to continue YouTube as a brand and as a community and as a separate business operation of Google. We think that the brand has value, we think that end

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users care a lot about it, and we want to preserve that. We think it has great value for end users, for the Corporation, for our shareholders and for advertisers.

It turns out I am getting the message that we need to finish up. So, what I wanted to do is thank everybody for taking their time to listen to us. This is the next step in the evolution of the Internet. The Internet started off as a way in which people would communicate and talk to each other, and soon, here I am surrounded by all these video cameras and people who are the world's video experts. It's a natural next step, and one which is very exciting for Google, for YouTube and, I think, for everyone's users. So thank you very, very much.

CHAD HURLEY: Thank you, everyone.

OPERATOR: That does conclude today's presentation.

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